

# NEED TO KNOW

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## COSTLY LABOR REQUIREMENTS: DAVIS-BACON & PROJECT LABOR AGREEMENTS

Federal construction projects are subject to countless rules and bureaucratic regulations – dictating everything from what types of employees can be hired to what wages these employees must be paid. This results in higher costs, missed deadlines, and “barriers to entry” that limit the number of firms that can compete or bid for government contracts.

### WHAT IS THE DAVIS-BACON ACT?

The Davis-Bacon Act was enacted in 1931 during the Great Depression to prevent non-unionized black and immigrant laborers from competing with unionized white workers for scarce jobs. The discriminatory effects are still lingering. It's not uncommon for minorities to be dramatically underrepresented in highly unionized skilled trades with less access to work because of prevailing wage laws.

The Act requires that contractors working on federal construction projects (i.e. building roads and bridges) pay their workers the so-called “prevailing wage” rate. This creates an artificial price floor for wages – firms are forced to pay salary and benefits in excess of the local average wage (a figure calculated by the U.S. Department of Labor) – and undermines any incentive to save taxpayers money by bringing in lower-cost labor.

The Mercatus Institute found that Davis-Bacon regulations increase the cost of federally funded construction projects by 9.9%. Part of the reason is that wages for federal projects are highly inflated by the regulations. Wages on highway projects are inflated by Davis-Bacon.

### WHAT IS A PROJECT LABOR AGREEMENT?

Project labor agreements (PLAs) allow construction unions to set a project's labor rules before any workers are actually hired for the project. This often means including inefficient union work rules or fixing wage rates at inflated union-worker levels. When a final contract bidder is picked and the contract is actually awarded for the project, all workers must be covered by the pre-negotiated labor rules regardless of whether they are union or non-union. This functionally prohibits contractors that use less expensive non-union labor (which makes up over 86 percent of the construction workforce in the U.S.) from working on federal projects, and it also prevents non-union contractors from underbidding union contractors – which would help keep overall project costs under control.

### QUICK FACTS

- The requirements imposed by the Davis-Bacon Act and Project Labor Agreements unnecessarily inflate the cost of federal construction projects – a handout for construction unions at the expense of taxpayers.
- Repealing Davis-Bacon laws would save taxpayers \$1.6 billion annually. Repealing Project Labor Agreements would save Americans \$24 billion.

### NOTABLE & QUOTABLE

“...[F]ederal contractors are charged, on average, a 22 percent premium on their labor costs above what private companies pay for the same project, which often prevents low-skilled workers from getting a fair shot.”

- **Mike Lee**, Senator (R-UT)

“Davis-Bacon is bad for taxpayers and it is bad for small businesses and bad for workers needing a job. Repealing this outdated law would be a big step towards ensuring taxpayer dollars are being used wisely and efficiently.”

- **Steve King**, Representative (R-IA)

The National University System Institute for Policy Research found that costs are 13 to 15 percent higher when school districts construct a school under a PLA. In inflation adjusted dollars, they found that the presence of a PLA is associated with costs that are \$28.90 to \$32.49 per square foot higher.

Americans for Tax Reform found that repealing Project Labor Agreements would save American taxpayers \$24 billion.

### **STATES ROLLING BACK COSTLY LABOR REQUIREMENTS**

Unfortunately, the federal government wasn't the only government that imposed these costly rules on spending projects. But many states are taking action to roll back PLA mandates. In 2015, three states took action to guarantee free and open competition on taxpayer-funded construction projects. West Virginia banned PLA mandates when Gov. Earl Ray Tomblin became the first Democratic governor to sign a bill prohibiting PLA mandates. Arkansas Gov. Asa Hutchinson signed into law a bipartisan bill prohibiting PLA mandates that passed both the State Senate and House of Representatives in unanimous votes. In Nevada, Gov. Brian Sandoval signed legislation to make Nevada the 23rd state to restrict PLA mandates on state and state-assisted projects in some capacity, bringing the number of states challenging PLA law to 22.

### **CONCLUSION**

Passed during the Great Depression to inflate wages above the market rate, the Davis-Bacon Act places needless restrictions on state and federal construction projects – unnecessarily driving up labor costs. Similarly, project labor agreements discriminate against more than 86 percent of the construction workforce by requiring union contracts and inefficient union work rules on construction projects. These two rules cost federal taxpayers billions of dollars per year.

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